

***Government that Works!***

**NEW JERSEY DEPARTMENT OF THE TREASURY**

**LOCAL GOVERNMENT BUDGET REVIEW**

**BOROUGH OF HOPEWELL**

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## **GOVERNMENT THAT WORKS**

### **OPPORTUNITIES FOR CHANGE**

#### ***The Report of the Borough of Hopewell***

New Jerseyans deserve the best government their tax dollars can provide. Governor Whitman is committed to making State Government leaner, smarter and more responsive by bringing a common sense approach to the way government does business. It means taxpayers should get a dollar's worth of service for every dollar they send to government, whether it goes to Trenton, their local town hall or school board. Government on all levels must stop thinking that money is the solution to their problems and start examining how they spend the money they now have. It is time for government to do something different.

Of major concern is the rising cost of local government. There is no doubt that local government costs and the property taxes that pay for them have been rising steadily over the past decade. Prior to Governor Whitman's taking office in 1994, the State had never worked as closely with towns to examine what is behind those costs. That is why she created the Local Government Budget Review (LGBR) program. Its mission is simple: to help local governments and school boards find savings and efficiencies without compromising the delivery of services to the public.

The LGBR program utilizes an innovative approach combining the expertise of professionals primarily from the Departments of Treasury, Community Affairs and Education with team leaders who are experienced local government managers. In effect, it gives local governments a comprehensive management review and consulting service at no cost by the State. To find those "cost drivers" in local government, teams review all aspects of local government operation, looking for ways to improve efficiency and reduce costs.

In addition, teams also document those State regulations and mandates which place burdens on local governments without value added benefits and suggest, on behalf of local officials, which ones should be modified or eliminated. Teams also look for "best practices" and innovative ideas that deserve recognition and that other communities may want to emulate.

Based upon the dramatic success of the program and the number of requests for review services, in July, 1997, Governor Whitman ordered the expansion of the program tripling its number of teams in an effort to reach more communities and school districts. The ultimate goal is to provide assistance to local government that results in meaningful property tax relief to the citizens of New Jersey.

## **THE REVIEW PROCESS**

In order for a town, county or school district to participate in the Local Government Budget Review program, a majority of the elected officials must request the help of the Review Team through a resolution. There is a practical reason for this: to participate, the governing body must agree to make all personnel and records available to the Review Team, and agree to an open public presentation and discussion of the Review Team's findings and recommendations.

As part of each review, team members interview each elected official, as well as employees, appointees, members of the public, contractors and any other appropriate individuals. The Review Teams examine current collective bargaining agreements, audit reports, public offering statements, annual financial statements, the municipal code and independent reports and recommendations previously developed for the governmental entities, and other relative information. The Review Team physically visits and observed the work procedures and operations throughout the municipal entity to observe employees in the performance of their duties.

In general, the Review Team received the full cooperation and assistance of all employees and elected officials. That cooperation and assistance was testament to the willingness on the part of most to embrace recommendations for change. Those officials and employees who remain skeptical of the need for change or improvement will present a significant challenge for those committed to embracing the recommendations outlined in this report.

Where possible, the potential financial impact of an issue or recommendation is provided in this report. The recommendations do not all have a direct or immediate impact on the budget or the tax rate. In particular, the productivity enhancement values identified in this report do not necessarily reflect actual cash dollars to the municipality, but do represent the cost of the entity's current operations and an opportunity to define the value of improving upon such operations. The estimates have been developed in an effort to provide the entity an indication of the potential magnitude of each issue and the savings, productivity enhancement, or cost to the community. We recognize that all of these recommendations cannot be accomplished immediately and that some of the savings will occur only in the first year. Many of these suggestions will require negotiations through the collective bargaining process. We believe, however, that these estimates are conservative and achievable.

**LOCAL GOVERNMENT BUDGET REVIEW  
EXECUTIVE SUMMARY  
BOROUGH OF HOPEWELL**

**General Budgeting**

The borough council and finance officer identify and cancel any unneeded appropriations before year end to make those funds available as unrestricted surplus.

The borough council and department directors need individual line items to accurately budget.

The borough council and finance officer should more closely estimate annual revenue projections. Annual revenue enhancement estimated at \$43,800.

The borough council should establish a policy stating the maximum acceptable level of surplus to guide the staff in preparing the annual budget. Estimated revenue enhancement of \$113,600.

The borough council should review the allocation of expenses between the current fund and the utility fund and establish the appropriate pro-ratio of common expenses. Costs shifted to the utility will reduce the tax burden. Savings not estimated.

Permission should be sought to close the PATF I account. This would return \$22,854 to the current fund.

**Public Safety**

It is recommended that the borough council evaluate its alternatives and costs in procuring police services every three years.

The borough council should develop a public facilities plan in concert with the fire district officials to minimize expenses in remodeling facilities.

The borough council should evaluate contracting and reimbursement alternatives before adding paid EMS staff.

**Public Works**

The borough council should completely privatize the trash collection/disposal service. Savings on tax bill: \$176,000. Savings on taxes will be offset by fees for private service.

The borough council should review the continuing need for a water utility consultant. Potential savings of \$6,000 per year.

**Library**

The borough council should provide library services through an interlocal service agreement, or merge with Pennington or Mercer County. Annual savings \$27,000.

**Court**

The borough council should consolidate the Hopewell Borough and Pennington Borough Courts. Consider further consolidation with Hopewell Township. Estimated savings: \$20,995 shared with Pennington Borough.

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## COMMUNITY OVERVIEW

Written accounts of the history of Mercer County refer to Hopewell Borough and Pennington as two of the “original, distant crossroads in the area.” Where once they were distant enclaves, they are now fully developed communities working to retain their character and charm while simultaneously providing modern municipal services.

The historical rates of growth and development of these “distant crossroads” were much faster than in the area that is known today as Hopewell Township. While rapid residential development is occurring in the township, both Hopewell Borough and Pennington have very little undeveloped land. Both of these established communities are undergoing a significant transformation of a different type as business sites are being revitalized and homes are re-sold to a younger generation. The two municipalities requested that a team from the Local Government Budget Review program complete a performance review of each municipality and identify ways in which they may be able to cooperate to reduce the cost of government.

Elected officials, staff members and citizens in both communities readily acknowledged that in the long term their ability to maintain the character and identity of Hopewell Borough and Pennington Borough is directly dependent upon their ability to mitigate, if not reverse, the trend of rising costs of local government. This report does not contain any recommendation suggesting the complete consolidation of municipalities; however, this report does acknowledge that this option may have to be given serious consideration in the future, particularly if there is little success in mitigating the cost of local government services.

The first section of the report, “Best Practices of Hopewell and Pennington,” contains a brief discussion of two unique practices that were found in both communities. There are actions being taken to revitalize the business properties and actions being taken to provide a mix of housing opportunities. It is hoped that other municipalities throughout New Jersey will be able to learn and benefit from the best practices found in all of the municipalities visited by local government budget review teams.

The second section of each report contains “Observations and Recommendations That Are Unique to Hopewell” or “Pennington.” This section is different in the reports presented to the governing bodies of the two communities.

Section Three, “Statutory and Regulatory Reform,” identifies State mandates that adversely impact the cost of local government with little or no value to local government operations.

A fourth section is included that focuses on “Special Opportunities for Local Cooperation.” The review team identified a number of functions where it appeared the local preference to minimize the costs outweighed the desire or need for each community to retain its own independent function. There were other instances where the reorganization of existing personnel could lead to a significant improvement in the quantity and quality of work being done without incurring additional cost.

Where possible, an estimate of the financial impact of a recommendation is presented. These estimates have been carefully prepared. Their best use is as a measure of the relative magnitude of a potential change. Past clients have found them to be useful to prioritize the recommendations they wish to pursue.

In general, each recommendation falls into one of three broad categories. First, there are recommendations intended to improve the value of the expenditures being made on behalf of the public. Second, there are recommendations intended to reduce the overall cost of providing basic governmental services to the public. Third, there are recommendations intended to address the public policy issue of the appropriate balance between local fees and tax support for optional governmental services. In these cases, the overall cost of a service may not decrease, but the cost to the taxpayer can be reduced.

In this report, “savings” can take the form of reduction of costs, a shift in the funding to a non-tax source, or the avoidance of cost increases.

Implementation of some recommendations will have an impact in only one fiscal year, i.e., the closing of a dedicated account, while others will have a recurring fiscal impact such as enhanced interest income resulting from improved banking contracts. The recurring or non-recurring nature of the impact of a recommendation is identified in the body of the report. The value assigned to recurring events is the estimated impact for one year only.

It is unreasonable for a council, the staff or the public to expect that all of the recommendations can be accomplished in one year or that the entire estimated fiscal impact will occur at once. Many of the recommendations address the organizational and structural issues which often take more than one year to implement. It is also common to see that the favorable fiscal impact of a change tends to lag until at least the next budget cycle.

It is to the credit of the elected leadership of both communities that they actively sought the identification of options and ideas to ensure the continued health of their respective municipal operations. Their interest indicates their commitment to providing the best possible services to the taxpayers at the lowest possible price.

The review team found most of the individuals who were interviewed to be genuinely interested in the consideration of new methods and constructive change, particularly if the recommended changes will help protect and retain the identity and character of their community. It is with this “greater goal” in mind that the recommendations of the local government budget review team are presented.



## **I. BEST PRACTICES**

A very important part of each Local Government Budget Review report is the Best Practices section. During the course of every review, each review team identifies procedures, programs and practices which are noteworthy and deserving of recognition. Best Practices are presented to encourage replication in communities and schools throughout the state. By implementing these practices, municipalities and school districts can benefit from the Local Government Budget Review process and possibly save considerable expense on their own.

Just as we are not able to identify every area of potential cost savings, the review team cannot cite every area of effective effort. The following are those best practices recognized by the team for their cost and/or service delivery effectiveness.

### **Business Revitalization Efforts**

Pennington has remarkably few, if any, vacant storefronts or businesses. This was not the case a few years ago. Indeed, finding sufficient parking for the business patrons and employees is a current issue. The revitalization of the business community is the direct result of volunteer committee's efforts.

Similarly, Hopewell has been hard at work to strengthen and diversify the retail and support services offered. The starting point in both Hopewell's and Pennington's projects was a candid evaluation of the available land, buildings and businesses within the municipality and an assessment of what types of businesses are needed. "Need" was defined in terms of an appropriate mix of businesses as well as the community's preferences. Although at different stages in the process, both communities are excellent examples of successful renewal of a small town "Main Street."

### **Mix of Housing Opportunities**

In Pennington, a development dedicated to housing senior citizens has become a catalyst for improving the community. This alternative permitted approximately 100 dwelling units to be built, allowing senior citizens to relocate into smaller living quarters while still remaining in their hometown. The sale of their former homes has resulted in an influx of new families committed to the value of living in a small town atmosphere.

The existence of attractive housing opportunities for both seniors and young families permitted Pennington to strengthen its already strong tradition of voluntarism. The number of active volunteers in Pennington is roughly equal to 10 percent of the community's population. By itself, the library has approximately 70 active volunteers.

In Hopewell Borough the Council on Affordable Housing (COAH) increased the borough's affordable housing obligation from 0 to 37 units. Many citizens and officials found this increase to be undesirable; however, the municipality prepared an aggressive fair share plan that relies

heavily on the renovation of existing, eligible housing stock and the identification of accessory units. The community is also considering the approval of a limited number of dedicated senior housing units.

Addressing the need for a change in the mix of housing opportunities will give both communities the opportunity retain their small town identity while at the same time providing the vitality and diversity that is needed in every town.

#### **Contracted Police Services**

Hopewell Borough contracts for all of its police services with Hopewell Township. The increase in the cost of the annual contract has been considerably less than the statewide average increase in police budgets. Based upon comments made during interviews and observations made by members of the review team, Hopewell Township is sensitive to the borough's desire to get to know and trust "their" officers.

Given the relatively low cost overall, the slower rate of growth in the cost of services and the level of public satisfaction that has been maintained, the contracted police services in Hopewell Borough is recognized as a unique best practice deserving to be considered and repeated throughout the state, particularly where a small municipality is adjacent to a large municipality.

## **II. OPPORTUNITIES FOR CHANGE/FINDINGS AND RECOMMENDATIONS**

The purpose of this section of the review report is to identify opportunities for change and to make recommendations that will result in more efficient operations and financial savings to the municipality and its taxpayers.

In its study, the review team found the municipality has made a conscious effort to control costs and to explore areas of cost saving efficiencies in its operations. Many of these are identified in the Best Practices section of this report. Others will be noted as appropriate in the findings to follow. The municipality is to be commended for its efforts. The review team did find areas where additional savings could be generated and has made recommendations for change that will result in reduced costs or increased revenue.

Where possible, a dollar value has been assigned to each recommendation to provide a measure of importance to illustrate cost savings. The time it will take to implement each recommendation will vary. It is not possible to expect the total projected savings to be achieved in a short period of time. Nevertheless, the total savings and revenue enhancements should be viewed as an attainable goal. The impact will be reflected in the immediate budget, future budgets, and the tax rate(s). Some recommendations may be subject to collective bargaining considerations and, therefore, may not be implemented until the next round of negotiations. The total savings will lead to a reduction in tax rates resulting from improvements in budget, cash management, cost control and revenue enhancement.

### **GENERAL BUDGETING**

#### **Effective Control of the Reserve Appropriations**

Section 40A:4-60 of the statutes of the State of New Jersey stipulate: Any unexpended balances of appropriations may, by resolution of the governing body, be canceled prior to the end of the fiscal year . . . At the end of the next succeeding year, all remaining unexpended balances shall forthwith lapse . . .

The use of this reserve appropriation is limited to paying the remaining expenses incurred in the prior fiscal year. The adoption of this provision preceded the ability to encumber electronically appropriations and prepare an automated list of bills for approval. Given the pace and reliance on manual bookkeeping procedures in the past, the need to retain a reserve appropriation in order to close out the books of the prior year accurately appears to have been necessary.

Given modern computer capabilities as well as the legal responsibility to encumber funds as soon as an expenditure has been authorized, the need for a reserve appropriation is limited at best. Between 1991 and 1995 the reserve appropriation in the general fund for the Borough of Hopewell grew from approximately \$81,675 to \$132,770. In 1991, the reserve appropriation amounted to approximately 10 percent of the authorized operating budget for the entire year. By 1995 the reserve appropriation had grown to approximately 13 percent of the operating budget.

It is far better to have unexpended balances at the end of the year, rather than experience the mindset that every appropriation must be consumed or it will be lost. The team found no evidence that this “use it or lose it” mentality existed. Yet, at the same time, the team found no substantive reason why unencumbered appropriations were not canceled at the end of the fiscal year.

In the fiscal years analyzed by the review team, the amount of the reserve appropriation that was actually spent never exceeded 50 percent. The unused portion of the reserve remained inaccessible for the remainder of the year before it lapsed into the unrestricted surplus of the borough.

#### **Recommendation:**

**It is recommended that the governing body direct the finance officer to submit a proposed resolution prior to the end of the fiscal year outlining authorized appropriations that can be canceled. Adoption of the resolution will immediately move the unencumbered funds into the unrestricted surplus of the municipality.**

We recognize that the reserve appropriation provides a mechanism to help avoid an over-commitment or overexpenditure of funds. Accordingly, greater emphasis must be placed on the departments to properly use the purchase order system to authorize expenditures.

Based upon a 1995 net taxable valuation of \$155,915,214, had the reserve appropriation been reduced by 50 percent and the resulting increase in the unrestricted surplus used as a revenue, the municipal tax rate could have been lowered by approximately \$53,000 or 3.4 cents per 100 dollars valuation. The tax bill of a home or business owner assessed at \$200,000 could have been approximately \$68 lower.

#### **Authorized Expenditures**

A five year analysis of the current year and reserve appropriations, i.e., the total amount spent, showed that overall the authorized appropriations exceeded expenses by only five percent, which is certainly not excessive. The pattern of budget transfers and reserve appropriations suggests that the allocation of funds made at the time of the adoption of the budget was not accurate.

#### **Recommendation:**

**In an effort to improve the accuracy of individual budget lines, it is recommended that the difference between originally budgeted and year-end actual expenditure amounts in past years be reviewed as the subsequent budget is prepared.**

#### **Improving Annual Revenue Estimates**

One of the key factors to determining the annual tax burden is the accuracy of the annual estimate of revenues. From 1991 through 1995 the amount of revenue anticipated in the annual

budget averaged approximately nine percent less than the amount of revenue actually collected. The excess revenue ranged from a low of \$43,808 in 1992 to a high of \$219,378 in 1995, as shown in Table One.

### **Recommendation:**

**While we recognize that conservative estimates will avoid revenue deficits, we recommend that a concerted effort be made to improve the accuracy of the annual revenue projections.**

The extent to which the governing body adopts overly conservative revenue estimates directly affects the burden that is borne by the taxpayer that year. Over ambitious estimates can negatively affect the tax burden in subsequent years. The need to use surplus to balance the budget and the amount that must be collected through the municipal tax rate can be reduced through more accurate revenue projections.

The reserve for uncollected tax appropriation is a non-spending appropriation designed to assure that the required funds are collected even when some taxpayers are delinquent. A low collection percentage causes this reserve and the tax burden to grow. A high collection rate allows for lower reserves. It is to the credit of the finance officer and the council that the projected tax collection rate used in each budget has been very close to the actual collection rate of the prior year. While the consistently high tax collection rate appears to remove much of the uncertainty associated with this annual estimate, the decision to minimize the difference between the actual collection rate and the estimated collection rate has helped to keep the reserve for uncollected tax budget item as low as possible.

**TABLE ONE**  
**A COMPARISON OF BUDGETED TO COLLECTED REVENUES**

	<u>1991</u>	<u>1992</u>	<u>YEAR</u> <u>1993</u>	<u>1994</u>	<u>1995</u>
Revenue Budgeted	\$1,198,792	\$1,537,910	\$1,344,178	\$1,366,464	\$1,393,639
Revenue Collected	\$1,342,973	\$1,581,718	\$1,477,676	\$1,480,101	\$1,616,017
Excess	\$ 144,181	\$ 43,808	\$ 133,498	\$ 113,637	\$ 219,378
% of Budget	9.38%	3.26%	9.93%	8.32%	15.71%

### **Unrestricted Surplus**

In three out of the five years reviewed, the difference between the amount of revenue projected in the budget and the amount actually collected during the year was greater than the amount of surplus used to balance the budget. In these three years there was no need to use any of the surplus to balance the budget. The municipal tax rate could have been lowered by an amount equal to the surplus that was used. This is another example of how more accurate revenue projections influences the annual budget preparation. Table Two summarizes this comparison.

**TABLE TWO**  
**THE USE OF UNRESTRICTED SURPLUS TO BALANCE THE BUDGET**

	YEAR				
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Excess Revenue	\$144,181	\$ 43,808	\$133,498	\$113,637	\$219,378
Surplus Budgeted	\$125,000	\$200,000	\$125,000	\$165,000	\$175,000
Surplus Needed	-0-	\$156,192	-0-	\$ 51,502	-0-

Further analysis of the unrestricted surplus indicates that it would have been acceptable to use the surplus to lower the municipal tax rate. The remaining surplus ranged from a low of 11 percent of the operating budget in 1992 to a high of 26 percent for 1996. When the remaining surplus is compared to the total budget the remaining balance ranged from a low of six percent in 1992 to a high of 19 percent in 1996.

School districts in New Jersey are obligated to limit their unrestricted fund balance to six percent per year. If this standard had been applied to the Borough of Hopewell in 1996, the council would have had the opportunity to add \$113,681 to the amount of the surplus listed in the budget as a revenue. Presumably this additional revenue would have lowered the need for municipal tax income by a comparable amount. The net result could have been a 7.29 cent reduction in the municipal tax rate. This would have lowered the tax bill on a property valued at \$200,000 by approximately \$146 per year.

### **Recommendation:**

**It is recommended that the governing body of the Borough of Hopewell establish its own local policy stating the maximum acceptable level for the unrestricted surplus.**

At the end of the fiscal year the balance in excess of the established amount can then automatically be included in the draft estimate of revenues listed in the preliminary budget. This strategy will permit the council to minimize the municipal tax rate while at the same time maintain a responsible financial position that retains as little of the public's money as possible. We recognize that the increased use of surplus will reduce the amounts of invested funds and interest earnings.

### **The Relationship Between the Current Fund and the Water Utility Fund**

The existence of a separate water utility fund means that all expenses generated by the acquisition, treatment and distribution of water as well as any related administrative and overhead expenses are to be completely borne by the revenues derived from the sale of water. It is intended to be its own business, separate from and independent of the services supported by the assessment and collection of property taxes.

The reality is that many operations use common equipment, personnel, and administrative services. Lacking a system to generate the required accounting detail, all of these expenses tend to be placed in the current fund by default. When this happens the taxpayer is supporting services that are supposed to be self-supporting.

**Recommendation:**

**It is recommended that common expenses be identified and the council adopt a resolution outlining the means by which they are to be prorated between funds.**

The adoption of such a policy statement will provide direction on how shared expenses are to be allocated between the current fund and the utility fund and should reduce the reliance on the current fund.

For example, the official duties of a municipal clerk and a municipal finance officer require that they complete tasks and transact business that is exclusively related to the operation of the water utility. As such, it is appropriate to charge a portion of their salaries and benefit costs to the utility fund. Similarly, the cost of benefits for the field personnel assigned to the water utility should not be charged against the current fund.

With the exception of pension and social security payments, the budget and audit schedules do not indicate that costs such as health insurance are being prorated between funds. Likewise, the details of the “other expense” budget line and the related audit schedules for the water utility do not reveal whether overlapping overhead expenses such as general liability insurance costs, audit expenses, etc., are being allocated between the two funds.

In a community like Hopewell, taxpayers make up nearly all water consumers. Yet, given the varying rates of water consumption as well as the range in the assessed value of property, the taxpayer\rate payer deserves to be treated as two separate clients. Some of the expenses that are commonly shared between the two funds are:

- Administrative salaries and benefits
- Public Works salaries and benefits
- Insurance premiums
- Professional fees
- Utility costs

Based on the net valuation taxable for 1995, for every \$15,600 that can be properly be shifted from the current fund to the water utility fund the council has the opportunity to reduce or prevent an increase in the municipal tax rate by one cent on a recurring basis.

The ability to make this change in the budgeting process is often a function of the financial condition of the utility fund. The unrestricted fund balance of the water utility has increased over the last five years. For the most part, operating income, which is based on the amount of water

consumed, has exceeded total expenses, thereby making it unnecessary to use utility surpluses to balance the utility budget. Given this, it is reasonable to suggest that the utility fund can afford to cover its fair share of the common or overlapping expenses.

### **Dormant Restricted Funds**

A review of the Public Assistance Trust Fund (PATF I) schedule in the audit for the last five years indicates there has been no activity in the fund. The PATF I fund originally provided reimbursement to municipalities who paid general assistance to welfare recipients. When the state assumed most public assistance expenses, the need for the PTAF I account was limited to completing preexisting transactions.

### **Recommendation:**

**We recommend that the borough solicit the permission of the New Jersey Department of Human Services to close the PATF I account and transfer the balance to the unrestricted surplus of the borough.**

Schedule E-1 of the audit for the year ending December 31, 1995 indicates the balance in the PATF I fund was approximately \$22,854. Most of this appears to have been kept in a checking account rather than in a savings account. After these funds are transferred to the unrestricted fund balance, the governing body would have the option of using them as revenue in the next budget. If this were done the net impact on the municipal tax rate would be a one time reduction of approximately 1.4 cents, or 28 dollars for a property assessed at \$200,000.

We note that the borough has consented to the consolidation of the municipal welfare into the county welfare operation and commend the council for this consolidation.

## **PUBLIC SAFETY**

The Borough of Hopewell is one of a few communities in the state that does not have in-house delivery of any of its public safety services, yet all of the individuals interviewed considered the police, fire and ambulance services to be very effective. Police services are provided by contract with Hopewell Township, while fire suppression is provided by a fire district that encompasses an area larger than the borough. Emergency Medical Services (EMS) is provided by volunteer squads.

### **The Police Services Inter-Local Agreement**

Hopewell Township provides 24-hour, 365-day police coverage for the borough through an inter-local agreement. The township also provides a Drug Abuse Resistance Education (DARE) program and three crossing guards during the school year. This arrangement, which began in 1983, is rather unique in the state and is considered a best practice that evolved out of a local assessment of the optimal way of providing police services at a reasonable cost to the taxpayer.



The township has been responsive to the service concerns expressed by the borough, particularly as they relate to the assignment of patrol officers. Previously, township officers were assigned on a rotating or other basis. In response to a request from the borough, the township now schedules the same officers to work in the borough except for vacations, sick leave and scheduled training breaks. The borough supports the work of the officers by providing a sub-station for their use. Monthly reports are provided to the borough by the township's chief of police.

During the period studied by the review team, the cost of police services rose from \$179,991 to \$244,947 for 1997. This is an average annual increase of 3.56 percent, which is considerably less than the increase in the cost of police services in other municipalities that have participated in the local government budget review program. Overall, the increase in the cost of police services, particularly police salaries and wages, has been identified as one of the six primary "cost drivers" for municipal governments in New Jersey.

The unique nature of this inter-local agreement limited the ability of the review team to identify similar arrangements that could be used for the purpose of making valid market comparisons. This year Ocean Township (Monmouth County) is providing basic patrol services to the Borough of Loch Arbour. Loch Arbour had previously contracted for these services with their neighbor, the Borough of Allenhurst. Of these two, the Ocean Township agreement is more compatible to the Hopewell arrangement.

Both the Ocean and Hopewell Township police departments are relatively large police departments that have contracted with a significantly smaller community. Both Ocean and Hopewell Townships have undeveloped parcels of land which could ultimately generate an increase in the demand for police services. Each one has a complete range of in-house police functions such as patrol and investigation. Both appear to be professionally managed by experienced and well-trained senior officers.

The population, area and total number of miles to be patrolled is smaller in Loch Arbour than in Hopewell Borough. There is no room for growth in Loch Arbour while there are still a few undeveloped parcels in Hopewell Borough. Both communities are part of regional school districts. Comparisons between contract partners in terms of economic, financial and income indicators such as tax collection rates, per capita income, ratio of true to assessed value do not indicate any noteworthy differences.

There are practically no incidents falling into the categories of the Uniform Crime Report (UCR) in either Loch Arbour or Hopewell Borough. In short, the primary services provided by the contracted police departments are traffic safety, tactical patrol, community education, crime prevention and public relations. They also provide access to specialized services on those rare occasions when they are needed.

For calendar year 1997, Ocean Township is charging Loch Arbour approximately \$144,000, while Hopewell Township is charging Hopewell Borough approximately \$244,947. Efforts to equalize these expenses on a “per unit” basis yields radically different results as shown in Table Three. Pennington Borough, which has its own police department, has been added to this chart for the purpose of additional comparison.

**TABLE THREE  
UNIT COMPARISONS OF POLICE SERVICE COSTS**

<u>Municipality</u>	COST PER:		
	<u>Day</u>	<u>Resident</u>	<u>Square Mile</u>
Hopewell Borough	\$671	\$118	\$ 326,595
Loch Arbour	\$395	\$415	\$1,440,000
Pennington	\$985	\$142	\$ 363,595

(Loch Arbour’s contract is new. Experience with the contract may result in significant revisions to the services and price upon renewal.)

The value of any of these measures is difficult to quantify. The data are insufficient to conclude that any of the small communities are paying too much or too little for the contracted service.

Given the lack of substantive market comparisons, another assessment tool is to identify the incremental cost increases incurred by the contractor and the extent to which the contractor is entitled to recover some of the underlying costs. The arrangement must be equitable for the taxpayers of both Hopewell Borough and Hopewell Township. Public sector arrangements built on a foundation of equity and quality of service benefit all parties in the long run.

The Loch Arbour experience indicates there are opportunities to compare services and costs with more than one provider.

### **Recommendation:**

**It is recommended that the council formally assess its alternatives at least once every three years.**

The council’s review should include the following:

1. What are the incremental increases in cost incurred by the current or proposed contractor as a result of the contract with the borough?
2. What is a reasonable amount to pay a contractor for the right of access and availability to the contractor’s police services?
3. Can a comparable level and quality of service be provided by another agency including the borough itself at a lower cost?
4. Can the cost comparison suggested above be segmented into an analysis of basic and ancillary services?

There is no certainty that such a review will yield a net reduction in costs. It is possible that the reverse could occur. Nevertheless, a regular review will ensure that careful consideration has been given to both the value and the equity of the expenditure.

### **Location of the Fire Suppression and Ambulance Service Facilities**

Here again, a somewhat unique relationship exists for the delivery of these services. The borough is part of a larger fire district. The origin of the district as well as the participation of many of the volunteers can be traced directly back to the former borough organizations. Many still consider it “the borough fire department and rescue squad,” although the volunteers have not limited their services to the political boundaries of the borough.

The district’s facilities are located in the first floor of the borough hall, which is a former school building. Although neither researched nor validated by the review team, concerns were expressed during the interviews about the fire district’s need for additional space. Some mentioned the need to relocate the fire station closer to what will become the center of their service district. Others suggested that keeping the facility within the boundaries of the borough may slow the rate of development outside the borough’s boundary. Yet others suggested the facility needed to be located close to the source of the volunteers which continues to be primarily the borough.

The issues concerning the location and the amount of additional space needed by the fire district are occurring at the same time that the borough is beginning to address the need to make the library and the borough hall accessible to the physically impaired.

### **Recommendation:**

**We recommend that the borough and the fire district consider all of these issues in the context of one public facilities plan.**

In the long run, it is likely to be more cost effective for the taxpayers to consider these projects together than separately, even if the work must be done in phases.

Generally the cost per square foot for construction of storage and garage space is less than the cost of construction of library and office space. In this case, the costs of renovation and meeting the accessibility requirements must be taken into account.

### **Availability of Rescue Squad Volunteers**

Throughout New Jersey the availability of rescue squad volunteers, particularly during the daytime, is becoming a pressing issue. There is no doubt that the Hopewell rescue squad volunteers are appreciated. Some interviewees expressed the concern that there may have to be paid personnel on duty during the day.

**Recommendation:**

Noting the adverse impact this could have on the effort to control the costs of government, we recommend that the consideration be given to one or more of the following alternatives before any decisions is made to add paid personnel to the staff:

1. Explore the feasibility of underwriting additional basic life support training for the police officers assigned to work in the borough.
2. Explore contracted on-site services for specific periods of time when volunteers are generally not available.
3. Explore the feasibility of a service arrangement analogous to a franchising or license arrangement in which a private firm becomes the sole service provider during the specified periods of time in exchange for the right to bill the patient's health insurance for the cost of service.

A combination of one or more of these options would, in all likelihood, maintain an acceptable level of service while minimizing the amount of municipal or district revenue that must be allocated each year.

## **PUBLIC WORKS AND UTILITY OPERATIONS**

**Refuse Collection Costs and Options**

In 1996 the budgeted amount for the refuse collection contract and tipping fees was approximately \$176,000. This is roughly equivalent to 11.3 cents or nearly 30 percent of the municipal tax rate. This is one of the largest components of the municipal tax rate.

As a result of court decisions, the use of in-county, regional transfer or final disposal facilities is no longer mandated by the state.

If the experience of other states is an accurate indicator, as the unrestricted market develops there will be a greater demand to tailor the services to the needs of the customer. The number of pick-ups that occur each week and the type and volume of material to be collected will determine the price the consumer must pay. Rising demand for customized arrangements will make it nearly impossible to have a cost effective, city wide contract with one refuse hauler, particularly in the smaller communities.

**Recommendation:**

Accordingly, it is recommended that Hopewell Borough consider removing itself from the refuse business entirely.

The number of refuse collection stops and the total tonnage collected is relatively small. In an industry where volume and efficiencies resulting from economies of scale can be crucial, the individual customer is more likely to be able to take advantage of market place competition. This also creates a system based on user fees, which is more equitable given the diversity of clientele in the community. Implementing this option would yield a \$226 reduction in the tax bill for a property assessed at \$200,000. We recognize that this tax reduction would be offset in large part by a new bill from the provider. One may anticipate that if trash collection and disposal becomes a 'private' activity, some individuals may choose not to purchase the service. Sanitation issues such as roadside dumping and illegal use of other dumpster service may occur.

Additionally, it is impractical for a small municipality using a contracted service to assure itself that the vendor's tipping fee is for trash generated in the municipality. Contractors must make use of the capacity of their trucks in order to achieve optimal profits. Small communities usually do not generate enough volume to warrant one or more trucks being assigned exclusively to their routes. When routes cross political boundaries there is no effective way to prorate the tipping fees. This is not a problem for individual customer contracts.

### **Water System Operations and Maintenance**

The borough's water utility is one of the community's most prized assets. It is a key component of the borough's self perception and its sense of autonomy. As such, it deserves to be carefully and thoroughly maintained, if for no other reason than to protect the capital investment.

Underground utilities tend to be "out of site and out of mind." As such, the need for preventive maintenance may not be appreciated or understood by those who are not directly involved in the care and management of the system. This in turn can make it very difficult for the work crews to explain or justify the time needed to conduct proper preventive maintenance procedures. It can also be very difficult for the governing body to justify additional preventive maintenance costs.

Improving the preventive maintenance procedures will entail an increase in the annual expense of the system. The extent to which these expenditures prevent revenues being lost due to "slow" meters or preclude even larger capital repair expenses in the future is very hard to predict. Based upon the observation and analysis completed by other local government budget review teams, it is reasonable to suggest that utility functions that have an ongoing preventive maintenance program experience far fewer unexpected problems, service interruptions and emergency operations. By paying for preventive maintenance on an ongoing basis, the costs are borne more equitably between current and future customers.

In the fourth section of the report, which is dedicated to "Special Opportunities for Local Cooperation," the effective utilization of personnel for maintenance of both the Hopewell and Pennington water systems is discussed. This should make it more feasible to complete additional preventive maintenance in both communities without adding personnel.

## **Recommendations:**

**In addition to the suggested reorganization of personnel, it is recommended that the borough actively support a preventive maintenance program that includes but is not limited to:**

- A. Scheduled flushing of all water lines and hydrants. Not only does this contribute to the quality of the product received by the customer, the color and content of the initial flow can be a good informal indicator of the condition of the pipes.**
- B. Scheduled open and closing of all valves to ensure their continued usefulness. Valves that are not exercised periodically can become stuck due to sediment and corrosion. Valves that function are vital when responding to a break in a pipe or some other type of emergency. Improperly working valves can be discovered and repaired before they become emergency repairs.**
- C. Scheduled replacement and random test of all water meters. The accuracy of new water meters is often assured by a manufacturer's warranty for a number of years after installation. Periodic tests of newer meters will provide assurance that meters are performing as warranted. Additionally, as the moving parts in older meters become worn they will run inaccurately. This can be one source of unaccounted for water. Testing older meters will provide an indication of the actual water loss.**

**We recommend that the council review the continuing need for the \$6,000 per year consulting contract.**

The existing staff has many of the required licenses for the treatment and distribution of water. It may be in the best interest of the community to provide the time and tuition reimbursements needed for the existing staff to obtain any additional licenses they may need.

## **Water System Billing and Collections**

The review team identified a competitive contract for meter reading, billing and processing that was \$1.66 per account. Unfortunately, this low unit cost was tempered by a flat charge of \$400 per billing cycle plus a negotiable start up fee. A significant economy of scale is needed to make this cost effective for a municipality.

While meter reading, billing and collections do not appear to be a major cost driver or a major component of the staff workload, the review team chose to research the possibility of contracted meter reading and billing in the hope of being able to identify a way to shift one or more tasks between personnel. This was considered in light of the fact that nearly every borough employee does a number of different jobs that consume varying amounts of work time. In the future it may be feasible to review these options again, particularly if a joint contract can be pursued that generates the requisite economy of scale and facilitates better utilization of the existing personnel.

## **LIBRARY SERVICES**

The Hopewell Borough Library serves the residents of the borough and surrounding areas. It is housed in a small facility (1,100 sq. ft.) which does not adequately serve the population. The library has made several modifications to overcome some limitations, but faces major obstacles in regard to future renovations. Compliance with the Americans with Disabilities Act and other Construction Code requirements has caused the library to consider either upgrading the existing facility, building a new facility, or relocating to the firehouse after the fire operation has been relocated. Inadequate space has caused the library to utilize technology to expand its collection without the need for additional shelf space. The library increased its hours of operation in September 1996 to 45 hours, six days per week without increasing personnel costs. This was accomplished through the rescheduling of paid staff work hours.

**The library board and staff are commended for their innovations to provide library services.**

The cost of maintaining the borough library exceeded the 1/3 mil required by statute. For the year 1996, the appropriation to the library was \$79,820. This represents a tax rate of just over 1/2 million.

**Recommendation:**

**By reducing the appropriation to the statutory 1/3 mil through consolidation with Pennington would result in an annual savings of \$27,000. In the Shared Services section of this report we discuss the opportunity to consolidate library services with Pennington Borough.**

### **III. SHARED SERVICES**

Tremendous potential for cost savings and operational efficiencies exists through the implementation of shared, cooperative services between local government entities. In every review, Local Government Budget Review strives to identify and quantify the existing and potential efficiencies available through the collaborative efforts of local officials in service delivery in an effort to highlight shared services already in place and opportunities for their implementation.

#### **The Basis for Additional Cooperation**

Cooperation in the delivery of services is hardly new in the Hopewell Valley. Both Pennington and Hopewell Boroughs have contracted for all of their public health services with Hopewell Township for many years. The contract for police services between Hopewell Borough and Hopewell Township has already been noted in this report.

Many officials and citizens in both communities expressed more concern with the quality and cost of a public service than the organization or origin of the service. There appeared to be a greater concern over controlling the quality of a service than controlling the service itself.

Contractual relationships for the delivery of a public service can provide the framework for a regularly scheduled critique of the quality and cost of the service being delivered. The comparison of cost to quality may not occur as frankly or objectively when a service is provided by an existing municipal department.

#### **A Consolidated or Joint Court**

While the team recognizes the separate authority and responsibility of the judicial branch of government, we have made the following comments and recommendations in an effort to provide the borough with information on current and potential operations, procedures and programs available to the court. Recommendations are made with the knowledge that further review and approval will be required by appropriate judiciary personnel.

Both communities currently retain the services of a court administrator, prosecutor and a municipal court judge. The dockets of both courts are remarkably short. A significant portion of the citizens appearing in court are not residents of either Hopewell or Pennington. As such, the court's "clientele" have no association or affinity with the host town.

#### **Recommendation:**

**It is recommended that Hopewell and Pennington establish a joint court, the scheduling of which could rotate between sites if necessary.**

In 1996, the combined salary and wage expense of the two courts was approximately \$41,990. In Hopewell the cost per session was approximately \$716 whereas in Pennington the cost per session was approximately \$1,034. The combined total of "charges disposed" was approximately 2,061. It is important to point out that the vast majority of these were resolved without a court



appearance. Each municipality had 24 court dates in 1996. It was reported that few, if any, of these sessions exceeded 90 minutes in length.

It does not appear that the volume of work warrants the existence of two separate court structures. If the personnel expense were reduced by approximately 50 percent then the burden on the taxpayers would be reduced by approximately \$20,995. This change would not affect collection or disposition of the fines or fees imposed by the court.

The pro-ration of the budget of a consolidated court would have to be addressed by the municipalities in accordance with NJSA.2B:12-1. The basis for cost allocation could include, but not be limited to, a per charge cost based upon the number cases placed on the docket, the ratio of total summons processed, or the ratio of ratio of full trials heard in each jurisdiction.

It may also be useful to consider a joint or consolidated court with Hopewell Township. Because the dockets in Pennington and Hopewell Borough are quite light the further consolidation may be cost effective.

We suggest both communities seek further information and guidance on this issue from the Administrative Office of the Courts and the Division of Local Government Services.

#### **Utilization of Public Works and Utility Crews**

Hopewell Borough contracts for the collection of refuse while Pennington continues to provide this service directly to its businesses and residents. Both communities have additional personnel assigned to other common public works functions such as park maintenance, road and sign maintenance, etc. Both communities also have personnel assigned to operate and maintain their respective water systems.

While both communities indicate they are satisfied with the public works and utility departments, it was evident to the review team that the small number of personnel prevented either department from doing anything other than responding to immediate issues or problems. The phrase “putting out fires” was used by several field employees to describe the nature of their work.

#### **Recommendations:**

**It is recommended that Hopewell and Pennington consider reorganizing the existing public works and utility personnel using one or more of the following options:**

- A. Contract with each other for the provision of one or more of the public works and utility functions.**
- B. Consolidate the utility crews and the public works crews to permit greater use of the existing personnel and permit more opportunities for preventive maintenance.**
- C. Coordinate and/or consolidate the meter reading and billing functions. It may be possible to pursue a cost effective contract for an outside agency to do this work, thereby creating more available work time for the existing personnel.**

With the exception of the elimination of some redundant costs, the advantage to considering a reorganization would be to achieve a major improvement in the overall quality of the service that would result from improved economies of scale. The optimal use of the existing employees should yield greater productivity, particularly in the areas of preventive maintenance.

### **Overlapping Roles of the Municipal Clerk and Municipal Finance Officer**

In both communities the role of the municipal clerk and finance officer are part time positions. They are combined to create one full time position in each borough. Throughout New Jersey it is quite common to find that one individual performs a number of different municipal functions in the interest of minimizing costs. The tacit trade-off that occurs is that these organizations forego some of the standard checks and balances or internal controls. They must rely on the professionalism and integrity of the individuals filling these joint positions. **Conversely, the individuals must rely on good will rather than internal controls to avoid the appearance of inappropriate transactions.**

The review team found absolutely no indication whatsoever of any problem regarding the professional conduct of these employees in either community. In the long run, however, it would be in the best interests of the taxpayers, the elected officials and the employees to develop an organizational structure that did not rely on personal integrity as its primary if not sole form of internal control.

### **Recommendation:**

**It is recommended that Hopewell and Pennington work with the existing tenured personnel to create one full time finance position and one full time municipal clerk position, both of which would be shared equally by the municipalities.**

The separation of duties should facilitate an improvement in the purchasing and bidding procedures in that the CFO would certify the availability of funds while the clerk ensures that all purchasing procedures have been properly followed. Both communities could also have a formal, built-in back-up system to cover vacations, etc.

### **Uniform Construction Code Enforcement**

Much like the enforcement of the health and sanitation codes, enforcement of the construction codes is guided by statewide standards and regulations. Hopewell Township currently provides all of the health and sanitation inspections through an inter-local agreement.

### **Recommendation:**

**It is recommended that consideration be given to establishing a similar arrangement for the enforcement of the uniform construction code.**

Middletown Township, Atlantic Highlands and Keansburg participate in a cooperative agreement in which applications and permits are obtained at the local borough hall but all inspections are conducted out of the Middletown office. There is a uniform schedule of fees. The two smaller boroughs collect and share the permits fees with Middletown. This arrangement provides for a greater degree of consistency in the application and interpretation of the codes and it takes advantage of an economy of scale that tends to balance the staffing requirements with the work load as well as the staffing expenses with the program revenues.

### **Property Assessment and Tax Appeal Functions**

There may be some benefit for Hopewell and Pennington jointly to appoint counsel for tax appeals. Comparison of property values in similar towns are often key elements to the argument presented by the petitioner. Presumably there should be some advantage to having the same individual or firm responding to the petitioners' arguments.

### **Preparation of Standard Bid Documents and Bidding Strategies**

The standard "boiler-plate" sections of every bid package are the same due to the requirements to satisfy affirmative action, anti-collusion and advertising requirements. It is possible to build a template or model that can be used repeatedly for the remaining sections of a bid package. Simply put, the preparation of competitive bid packages, which are often perceived to be difficult, can be streamlined without sacrificing any legal protection or requirement. The same template could be used by both municipalities.

There are also a number of bid items used by both municipalities. Some of these include asphalt, stationery, fuel, general maintenance contracts and banking services. Many of these items can be bid in bulk or on a "per unit" basis. It is recommended that both communities make greater use of the competitive bid process through the use of common documents, joint purchasing, and state or county contracts.

### **Public Library Services**

Currently, library membership in one library provides access to both the other municipal library as well as the Hopewell Branch of the Mercer County Library. Each municipal library has developed collections of specific interest to clients within their respective municipality. We commend the libraries for making their collections available and useful to their clients.

### **Recommendation:**

**The need for facility improvement in Hopewell Borough (discussed in the Hopewell section of this report) and the proximity of all three libraries results in the recommendation that the Hopewell Borough Library be merged with the Pennington Library at the Pennington location either through an interlocal service agreement or establishment of a joint library.**

A consolidated library can preserve the unique local focus of the respective collections. Currently, statute requires a referendum approved by both municipalities to approve a joint library. Municipal officials may wish to review N.J.S.A. 40:54-29.1 and 29.3 concerning municipal library services, and N.J.S.A. 40:33-1 et seq. concerning county library options.

## **IV. STATUTORY AND REGULATORY REFORM**

The fourth and final section of the report, Statutory and Regulatory Reform, attempts to identify those areas where existing State regulations or statutory mandates are brought to the attention of the LGBR review team by local officials which appear to have an adverse effect on efficient and cost effective local operations. It is common for local officials to attribute high costs and increased taxes to “state mandates.” Each review team is then charged with reporting those areas in this section of the report. The findings summarized below will be reviewed by the appropriate state agency for the purpose of initiating constructive change at the state level.

### **Maintaining the Equity of Regional School District Funding Formulas**

The municipal tax burden in Hopewell and Pennington Boroughs is practically inconsequential, particularly when it is compared to the school tax rate. N.J.S.A. 18A:13-23.3 provides for the periodic reconsideration of a regional schools systems school funding formula. Funding formulas must be based on either the ratio of the assessed values of each constituent municipality or on the ratio of the students contributed to the regional system. Our review indicates that both Hopewell Borough and Pennington Borough taxpayer are paying a disproportionate amount of the regional school tax levy. The question of revising the funding formula to be more equitable must be submitted to the voters of each town in the regional district. Because the redistribution of the tax burden will cause an increased burden in other member towns, it appears unlikely that a small town with an inequitable burden could ever obtain votes to alter the apportionment.

#### **Recommendation:**

**We recommend that benchmarks be established to define the existence of funding inequity and that the authority to implement a revised funding formula be established at an appropriate level of government.**

### **Balancing the Responsibility for Collecting the Reserve for Uncollected Taxes**

Currently, state statute requires that the municipality include a reserve appropriation for uncollected taxes. This serves to provide a guarantee to each taxing district that they will collect their levy and avoid deficits. Because this reserve is in the municipal budget, and therefor in the local purpose tax rate, the local purpose tax can seem artificially high.

#### **Recommendation:**

**In order to better identify the reserve, and to avoid the problem of associating it with one particular budget, we recommend that state law and regulation be changed to require that the reserve for uncollected tax rate be shown separately on the tax bill.**

## **LOCAL GOVERNMENT BUDGET REVIEW**

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